

SHELBY COUNTY
MYRTUE MEMORIAL HOSPITAL
D/B/A MYRTUE MEDICAL CENTER

INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED JUNE 30, 2013 AND 2012

MYRTUE MEDICAL CENTER

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MYRTUE MEDICAL CENTER
Officials
June 30, 2013

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Karen Buman	Harlan, Iowa	

Gronewold, Bell, Kyhnn & Co. P.C.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Myrtue Medical Center
Harlan, Iowa

Report on the Financial Statements

We have audited the accompanying statements of net position of Myrtue Medical Center as of June 30, 2013 and 2012 and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

To the Board of Trustees
Myrtue Medical Center

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Bases for Qualified Opinion

The financial statements do not include an estimate of an Other Post Employment Benefits (OPEB) liability for an implicit health insurance premium rate subsidy resulting from the legal requirement to allow employees retiring after age 55 to remain on the Hospital's healthcare plan until age 65. Accounting principles generally accepted in the United States of America require that any material liability resulting from this OPEB requirement be included in the financial statements (Note M).

The financial statements do not include financial data for the Medical Center's legally separate component unit, Shelby County Medical Corporation. Accounting principles generally accepted in the United States of America require the financial data for the component unit to be reported with the financial data of the Medical Center unless the Medical Center also issues financial statements for the financial reporting entity that include the financial data for its component unit. The Medical Center has not issued such reporting entity financial statements (Note A).

Qualified Opinion

In our opinion, except for the effect of not including an estimated OPEB liability for the implicit health insurance premium rate subsidy and the effect of omitting the blended component unit, as discussed in the previous section, the financial statements referred to above present fairly in all material respects, the financial position of Myrtue Medical Center as of June 30, 2013 and 2012 and the results of its operations, changes in financial position, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require Management's Discussion and Analysis and the Budgetary Comparison Information on pages 3 through 3e and on page 24 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Myrtue Medical Center's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the three years ended June 30, 2011 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information on pages 1 and 25 through 31 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

To the Board of Trustees
Myrtue Medical Center

Report on Other Legal and Regulatory Requirements

In accordance with Government Auditing Standards, we have also issued our report dated October 4, 2013 on our consideration of Myrtue Medical Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

Gronewold, Bell, Kuhn + Co. P.C.
Atlantic, Iowa
October 4, 2013



MYRTUE MEDICAL CENTER Management's Discussion and Analysis

Our discussion and analysis of Myrtue Medical Center's (Medical Center's) financial performance provides an overview of the Medical Center's financial activity for the fiscal years ended June 30, 2013, 2012, and 2011. Please read it in conjunction with the Medical Center's financial statements, which begin on page 5.

FINANCIAL HIGHLIGHTS

The 2013 fiscal year was the seventh full year of Critical Access and hospital-based Rural Health Clinic designation for Myrtue Medical Center.

In 2013 the Medical Center reported a decrease in Operating Loss of \$96,000 when compared to the previous year. In 2012, the Medical Center reported a decrease in Operating Income of \$183,000 compared to the previous year.

Non-operating revenues of \$760,000 represented a \$36,000 increase from 2012.

THE STATEMENT OF NET POSITION AND STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Our analysis of the Medical Center finances begins on page 3a. One of the most important questions asked about the Medical Center's finances is, "Is the Medical Center as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues and Expenses, and Changes in Net Position report information about the Medical Center's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Medical Center's net position and changes to them. You can think of the Medical Center's net position - the difference between assets and liabilities and deferred inflows of resources - as one way to measure the Medical Center's financial health, or financial position. Over time, increases or decreases in the Medical Center's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Medical Center's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Medical Center.

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MYRTUE MEDICAL REHABILITATION SERVICES

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HARLAN
1220 Chatburn Ave
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SHELBY
301 East St
Shelby, IA 51570
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AVOCA
510 North Elm
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ELK HORN-
KIMBALLTON**
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MYRTUE MEDICAL CENTER
Management's Discussion and Analysis - Continued

THE STATEMENT OF CASH FLOWS

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

THE MEDICAL CENTER'S NET POSITION

The Medical Center's net position is the difference between its assets and liabilities reported in the Statement of Net Position on page 4.

Table 1: Assets, Liabilities, and Net Position

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Assets:			
Current assets	\$ 11,884,596	\$ 11,800,157	\$ 10,888,708
Capital assets, net	38,207,702	34,241,779	24,440,659
Other noncurrent assets	<u>4,629,110</u>	<u>2,921,243</u>	<u>8,655,603</u>
Total assets	<u>\$ 54,721,408</u>	<u>\$ 48,963,179</u>	<u>\$ 43,984,970</u>
Liabilities:			
Long-term debt outstanding	\$ 9,222,916	\$ 5,361,290	\$ 2,263,700
Other current and noncurrent liabilities	<u>5,133,258</u>	<u>4,364,848</u>	<u>3,865,799</u>
Total liabilities	<u>\$ 14,356,174</u>	<u>\$ 9,726,138</u>	<u>\$ 6,129,499</u>
Deferred Inflows of Resources	<u>\$ 556,715</u>	<u>\$ 503,879</u>	<u>\$ 433,411</u>
Net Position:			
Invested in capital assets, net of related debt	\$ 27,928,325	\$ 28,242,762	\$ 22,121,581
Restricted expendable	1,061,169	534,479	106,817
Unrestricted	<u>10,819,025</u>	<u>9,955,921</u>	<u>15,193,662</u>
	<u>\$ 39,808,519</u>	<u>\$ 38,733,162</u>	<u>\$ 37,422,060</u>

Current assets increased by \$84,000 from the previous year. Operating cash increased by \$457,000 from the previous year. Net accounts receivable increased by \$578,000 from the previous year as well. The increase in operating cash is a reflection of the construction project currently in process and the timing of funding advances on the 2011 Capital Loan Notes used to fund the project.

Capital assets, net have increased by \$3,966,000 in the past year and is also due to the current Medical Center construction project.

Other noncurrent assets have increased by \$1,708,000 due to increases in investments and debt service reserves.

MYRTUE MEDICAL CENTER
Management's Discussion and Analysis - Continued

Long term debt has increased by \$3,862,000 as a result of the issuance of the 2011 Capital Revenue Notes that were partially drawn during the 2013 fiscal year to cover costs of the construction project.

OPERATING RESULTS AND CHANGES IN THE MEDICAL CENTER'S NET POSITION

In 2013, the Medical Center's net position increased by \$1,075,000 or 2.8 percent, as shown in Table 2. Net position increased by \$1,311,000 or 3.5 percent in 2012.

Table 2: Operating Results and Changes in Net Position

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating Revenues:			
Net patient service revenue	\$ 31,507,184	\$ 30,755,140	\$ 29,022,979
Other operating revenues	<u>272,202</u>	<u>249,244</u>	<u>255,939</u>
Total operating revenues	31,779,386	31,004,384	29,278,918
Operating Expenses:			
Salaries and benefits	17,090,693	16,906,705	15,338,345
Professional fees	5,575,457	5,456,779	5,303,012
Depreciation	1,905,847	1,654,536	1,603,489
Other operating expenses	<u>7,257,598</u>	<u>7,132,757</u>	<u>6,997,410</u>
Total operating expenses	<u>31,829,595</u>	<u>31,150,777</u>	<u>29,242,256</u>
Operating income (loss)	(50,209)	(146,393)	36,662
Nonoperating Revenues and Expenses:			
County taxes	789,468	727,399	638,874
Investment income	131,254	73,970	138,414
Noncapital grants and contributions	50,480	35,699	33,982
Other nonoperating revenues and expenses, net	<u>(211,554)</u>	<u>(113,424)</u>	<u>(59,188)</u>
Nonoperating revenues (expenses), net	<u>759,648</u>	<u>723,644</u>	<u>752,082</u>
Excess of Revenues over Expenses Before Capital Grants and Contributions, and Endowments	709,439	577,251	788,744
Grants, Contributions, and Endowments:			
Capital grants and contributions	<u>365,918</u>	<u>733,851</u>	<u>704,714</u>
Excess of Revenues over Expenses	1,075,357	1,311,102	1,493,458
Net Position Beginning of Year	<u>38,733,162</u>	<u>37,422,060</u>	<u>35,928,602</u>
Net Position End of Year	<u>\$ 39,808,519</u>	<u>\$ 38,733,162</u>	<u>\$ 37,422,060</u>

MYRTUE MEDICAL CENTER
Management's Discussion and Analysis - Continued

OPERATING INCOME

The first component of the overall change in the Medical Center's net position is its operating income- generally, the difference between net patient service revenues and the expenses incurred to perform those services. In 2013 the Medical Center had a loss from operations of \$50,209, compared to a loss from operations of \$146,393 in 2012.

The primary components of the operating income are:

An increase in net patient service revenue of \$752,000, a 2.4 percent increase, in 2013 compared to an increase of \$1,732,000 or 6.0 percent in net revenue in 2012.

The increase in salary and benefit costs for the Medical Center's employees was \$184,000, a 1.1 percent increase, in 2013 compared to an increase of \$1,568,000 or 10.2 percent in 2012.

An increase in professional fee costs of \$119,000, a 2.2 percent increase, in 2013 compared to an increase of \$154,000 or 2.9 percent in 2012.

Other operating costs increased by \$125,000, a 1.7 percent increase, in 2013 compared to an increase of \$135,000 or 1.9 percent in 2012.

An increase in provision for depreciation of \$251,000, a 15.2 percent increase, in 2013 compared to an increase of \$51,000 or 3.2 percent in 2012.

Overall expenses increased 2.2 percent or \$679,000 in 2013 compared to an increase of 6.5 percent or \$1,909,000 in 2012.

The current shortage of professional caregivers and technologists continues to drive up some salary costs. The Medical Center must keep pace with the industry to compete for the highly sought after professionals. The advent of new technology and medicines requires additional capital and operating expense to provide current standard of care for our patients. The Medical Center works closely with its purchasing partner VHA Inc. to purchase medicines and supplies at the most economical rate possible for an organization of our size. The Medical Center provides health insurance to their employees through a self-funded plan. In 2013, claim experience decreased which resulted in a decrease in health insurance costs to the Medical Center of \$357,000 or 18.9%.

The Medical Center routinely provides care for patients who have little or no health insurance or other means of repayment. This service to the community is consistent with the goals established for the Medical Center when it was established in 1954. The level of services provided to these patients decreased from \$482,146 in 2012 to \$257,781 in 2013. The Medical Center did see a decrease in bad debts expense from \$1,260,000 in 2012 to \$1,100,000 in 2013.

NONOPERATING REVENUES AND EXPENSES

Nonoperating revenues consist primarily of property taxes levied by the Medical Center and investment earnings. The property valuation is calculated as of July 1 each year and used as the basis for tax levies on January 1. Variation in the revenue is a result of changing valuations and actual tax collection for the year. The Medical Center's investment income has increase due to significant increase in market value of stocks.

MYRTUE MEDICAL CENTER
Management's Discussion and Analysis - Continued

CONTRIBUTIONS AND ENDOWMENTS

During the 2007 fiscal year, the Medical Center started a fundraising campaign to build a \$10 million wellness center. The Medical Center has obtained pledges of approximately \$7.2 million dollars which includes \$206,000 in donations received during the 2013 fiscal year.

THE MEDICAL CENTER'S CASH FLOWS

The purpose of the statement of cash flows is to show the readers where cash was generated and how it was spent on a cash basis. The 2013 net cash provided by operating activities was \$1,559,000. In 2012, net cash provided by operating activities was \$837,000.

Net cash used in capital and related financing activities in 2013 was \$1,295,000, mainly due to the Medical Center's expansion and renovation project. In 2012, net cash used in capital and related financing activities was \$7,244,000.

Cash flow provided by investing activities was \$11,000 in 2013. In 2012, net cash provided by investing activities was \$3,536,000. In 2012 certificates of deposits were used to fund construction project.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

At the end of 2013, the Medical Center had \$38.2 million invested in capital assets, net of accumulated depreciation, as detailed in Note H to the financial statements. During 2013, the Medical Center spent \$5,236,000 on land, equipment and building improvements, a large portion of which was due to the Medical Center's expansion and renovation project. In 2012, \$10,992,000 was spent on land, equipment, and building improvements.

Debt:

In 2010 the Medical Center secured a loan for \$2.5 million to finish construction on its wellness center. The loan was secured by revenues of the Medical Center and was payable over 15 years. This loan was paid off in 2013 as a result of a clause in the 2011 Capital Revenue Notes documents.

In 2011, the Medical Center issued \$10,000,000 Capital Revenue Notes to fund the current Medical Center expansion and renovation project. As of June 30, 2013, \$9,345,754 has been drawn on that note.

The 2011 \$10,000,000 Capital Revenue Notes terms were amended in August, 2013 to take advantage of a lower interest rate.

BUDGETARY HIGHLIGHTS

The official county budget of the Medical Center for the year ended June 30, 2013 was prepared on a modified accrual basis. As indicated on page 24, actual expenditures were approximately \$6,465,000 lower than budgeted due to an unexpected decrease in volume of inpatient services provided and lower than expected increase in outpatient services.

MYRTUE MEDICAL CENTER
Management's Discussion and Analysis – Continued

OTHER ECONOMIC FACTORS

The Medical Center is a rural hospital in west central Iowa. The Medicare program represents about 62% of the revenues the Medical Center receives, and represents the greatest risk to our revenues. Payment changes and revamping of the Program by Congress can have a much larger effect on the Medical Center due to its high percentage of Medicare patients.

The Medical Center has been designated as a Critical Access Hospital. This designation has resulted in Medicare and Medicaid paying 101% of defined costs for services provided to eligible patients, thereby increasing reimbursement. Effective April 1, 2013 Medicare reimbursement was reduced by 2% under the federal sequestration process.

The Medical Center's rural health clinics in Harlan, Avoca, Shelby, and Elk Horn, Iowa also receive cost-based reimbursement from Medicare and Medicaid, which has substantially increased reimbursement to the clinics.

CONTACTING THE MEDICAL CENTER'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Medical Center's finances and to show the Medical Center's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Chief Financial Officer, Myrtue Medical Center, 1213 Garfield Avenue, Harlan, Iowa 51537.

* * *

MYRTUE MEDICAL CENTER
Statements of Net Position
June 30,

ASSETS

	<u>2013</u>	<u>2012</u>
Current Assets:		
Cash	\$ 557,140	\$ 100,410
Patient receivables, less allowances for doubtful accounts and for contractual adjustments (\$3,766,000 in 2013, \$3,296,000 in 2012)	7,931,756	7,354,012
Other receivables	186,710	87,148
Related organizations receivables	29,571	218,365
Inventory	193,838	163,864
Prepaid expense	294,610	323,556
Succeeding year property tax receivable	845,900	742,200
Internally designated assets	<u>1,845,071</u>	<u>2,810,602</u>
Total current assets	11,884,596	11,800,157
Designated and Restricted Assets:		
Internally designated assets	4,561,625	4,337,806
Restricted assets	<u>1,421,884</u>	<u>926,358</u>
	5,983,509	5,264,164
Less amounts required to meet current liabilities	<u>1,845,071</u>	<u>2,810,602</u>
	4,138,438	2,453,562
Capital Assets:		
Depreciable capital assets, net	34,562,603	20,493,056
Non-depreciable capital assets	<u>3,645,099</u>	<u>13,748,723</u>
	38,207,702	34,241,779
Other Assets:		
Notes receivable	35,954	38,083
Other	<u>454,718</u>	<u>429,598</u>
	490,672	467,681
Total assets	<u>\$ 54,721,408</u>	<u>\$ 48,963,179</u>

The accompanying notes are an integral part of these statements.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	<u>2013</u>	<u>2012</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 672,930	\$ 2,151,643
Accounts payable	2,261,413	1,478,844
Accrued employee compensation	1,193,744	1,109,011
Payroll taxes withheld and accrued	285,764	286,832
Accrued interest	--	800
Estimated third-party payor settlements	426,000	570,000
Other current liabilities	120,437	177,161
Deferred succeeding year property tax	845,900	742,200
Total current liabilities	<u>5,806,188</u>	<u>6,516,491</u>
Long-Term Debt, less current maturities	<u>8,549,986</u>	<u>3,209,647</u>
Total liabilities	<u>14,356,174</u>	<u>9,726,138</u>
Deferred Inflows of Resources:		
Deferred revenue	556,715	503,879
Net Position:		
Invested in capital assets, net of related debt	27,928,325	28,242,762
Restricted expendable	1,061,169	534,479
Unrestricted	10,819,025	9,955,921
Total net position	<u>39,808,519</u>	<u>38,733,162</u>
 Total liabilities, deferred inflows of resources, and net position	 <u>\$ 54,721,408</u>	 <u>\$ 48,963,179</u>

MYRTUE MEDICAL CENTER
Statements of Revenues, Expenses and Changes in Net Position
Year ended June 30,

	<u>2013</u>	<u>2012</u>
Revenue:		
Net patient service revenue	\$ 31,507,184	\$ 30,755,140
Other revenue	<u>272,202</u>	<u>249,244</u>
Total revenue	31,779,386	31,004,384
Expenses:		
Salaries and wages	13,284,354	12,899,426
Employee benefits	3,806,339	4,007,279
Professional fees	5,575,457	5,456,779
Supplies and other expenses	7,257,598	7,132,757
Provision for depreciation	<u>1,905,847</u>	<u>1,654,536</u>
Total expenses	<u>31,829,595</u>	<u>31,150,777</u>
Operating Loss	(50,209)	(146,393)
Non-Operating Revenues (Expenses):		
Investment income	131,254	73,970
Noncapital grants and contributions	50,480	35,699
County taxes	759,468	697,399
Behavioral health county revenue	30,000	30,000
Other restricted donations, net	22,125	3,838
Interest expense	(150,253)	(62,732)
Contracted ambulance service	(75,328)	(65,328)
Loss on disposal of assets	(33,908)	(15,172)
Clinic buildings revenue, net	<u>25,810</u>	<u>25,970</u>
Non-operating revenues, net	<u>759,648</u>	<u>723,644</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	709,439	577,251
Capital Grants and Contributions:		
Wellness center	205,918	566,351
Other	<u>160,000</u>	<u>167,500</u>
Increase in Net Position	1,075,357	1,311,102
Net Position Beginning of Year, as restated (Note O)	<u>38,733,162</u>	<u>37,422,060</u>
Net Position End of Year, as restated	<u>\$ 39,808,519</u>	<u>\$ 38,733,162</u>

The accompanying notes are an integral part of these statements.

MYRTUE MEDICAL CENTER
Statements of Cash Flows
Year ended June 30,

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 30,738,714	\$ 29,916,482
Cash paid to suppliers	(16,252,783)	(16,401,098)
Cash paid to employees	(13,199,621)	(12,927,842)
Other revenue	<u>272,202</u>	<u>249,244</u>
Net cash provided by operating activities	1,558,512	836,786
Cash flows from non-capital financing activities:		
County tax revenue	789,468	727,399
Contracted ambulance service	(75,328)	(65,328)
Noncapital grants and contributions	<u>75,480</u>	<u>48,199</u>
Net cash provided by non-capital financing activities	789,620	710,270
Cash flows from capital and related financing activities:		
Capital expenditures	(5,235,626)	(10,991,914)
Proceeds from disposal of assets	5,848	2,958
Proceeds from issuance of debt	6,081,364	3,264,390
Payments on long-term debt	(2,219,738)	(166,800)
Capital grants and contributions	365,918	733,851
Interest paid	<u>(293,289)</u>	<u>(87,091)</u>
Net cash used in capital and related financing activities	(1,295,523)	(7,244,606)
Cash flows from investing activities:		
Investment income	39,766	54,962
Change in designated and restricted assets	(23,575)	3,497,223
Clinic buildings revenue, net	25,810	25,970
Change in notes receivable	(5,603)	(374)
Change in other assets	<u>(25,120)</u>	<u>(41,644)</u>
Net cash provided by investing activities	11,278	3,536,137
Net increase (decrease) in cash and cash equivalents	1,063,887	(2,161,413)
Cash and cash equivalents, beginning of year	<u>1,554,849</u>	<u>3,716,262</u>
Cash and cash equivalents, end of year	<u>\$ 2,618,736</u>	<u>\$ 1,554,849</u>

(continued next page)

MYRTUE MEDICAL CENTER
Statements of Cash Flows - Continued
Year ended June 30,

	<u>2013</u>	<u>2012</u>
Reconciliation of cash and cash equivalents to the statements of net position:		
Cash in current assets	\$ 557,140	\$ 100,410
Cash in designated and restricted assets	<u>2,061,596</u>	<u>1,454,439</u>
Total cash and cash equivalents	<u>\$ 2,618,736</u>	<u>\$ 1,554,849</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$(50,209)	\$(146,393)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Provision for depreciation	1,905,847	1,654,536
Amortization	7,732	7,232
Change in assets and liabilities		
Accounts receivable	(677,306)	(637,126)
Related organization receivable	188,794	(95,917)
Inventory	(29,974)	30,210
Prepaid expense	28,946	(24,060)
Accounts payable, trade	248,905	99,009
Accrued employee compensation	84,733	(28,416)
Estimated third-party payor settlements	(144,000)	(160,000)
Payroll taxes withheld and accrued	(1,068)	151,675
Other current liabilities	(56,724)	27,568
Deferred revenue	52,836	(41,532)
Total adjustments	<u>1,608,721</u>	<u>983,179</u>
Net cash provided by operating activities	<u>\$ 1,558,512</u>	<u>\$ 836,786</u>

Non-Cash Transaction:

The Hospital also incurred the following non-cash transaction in addition to the transactions reflected in the reconciliation of operating loss to net cash provided by operating activities:

	<u>2013</u>	<u>2012</u>
Net book value of equipment traded	<u>\$ --</u>	<u>\$ 7,465</u>

The accompanying notes are an integral part of these statements.

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2013 and 2012

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

1. Reporting Entity

Myrtue Medical Center (the Medical Center) is a county hospital with related healthcare ancillary, outpatient, and physician clinic services. The Medical Center is organized under Chapter 347 of the Code of Iowa, accordingly is a political subdivision of the State of Iowa, and is therefore exempt from federal and state income taxes. It is governed by a seven member board of trustees elected for six year terms. The Medical Center has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Medical Center are such that exclusion would cause the Medical Center's financial statements to be misleading or incomplete. The criteria for determining financial accountability include: appointing a majority of an organization's governing body, and (a) the Medical Center's ability to impose its will on that organization, or (b) the potential for the organization to provide benefits to or impose financial burdens on the Medical Center.

The Medical Center has one component unit, Shelby County Medical Corporation (SCMC). SCMC contracts physician services to the Medical Center's physician clinics, and virtually all of its transactions are with the Medical Center. It has limited net position and activity other than between SCMC and the Medical Center. Therefore, combining the component unit would not have a material effect on these financial statements (See Note L).

The following summary shows the net increase or (decrease) blending the component would have on the assets, liabilities, net position, revenues, and expenses of Myrtue Medical Center as of and for the year ended June 30:

	<u>2013</u>	<u>2012</u>
Assets would increase by	\$ <u>310,749</u>	\$ <u>199,125</u>
Liabilities would increase by	\$ <u>152,309</u>	\$ <u>134,294</u>
Net Position would increase by	\$ <u>158,440</u>	\$ <u>64,831</u>
Revenues would decrease by	\$(<u>49,411</u>)	\$(<u>46,200</u>)
Expenses would decrease by	\$(<u>143,020</u>)	\$(<u>121,151</u>)

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2013 and 2012

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

2. Enterprise Fund Accounting

The Medical Center uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

3. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less, including designated and restricted assets.

5. Inventory Valuation

Inventory is valued at the lower of cost (first-in, first-out method) or market.

6. Investments

Investments are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in non-operating revenue when earned, unless restricted by donor or law.

7. Capital Assets

The Medical Center's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Capital assets with lives in excess of four years and cost in excess of \$5,000 are capitalized. These capital assets, other than land, are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using their estimated useful lives (fifteen to fifty years for buildings and land improvements and five to twenty years for equipment).

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2013 and 2012

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

8. Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The Medical Center capitalized \$142,236 of interest cost in 2013 (\$24,359 in 2012).

9. Compensated Absences

Medical Center employees earn paid time off (PTO) hours at varying rates depending on years of service. PTO time accumulates to a maximum of 360 hours. Any excess over 360 hours is lost. Employees may elect to receive salary in lieu of PTO for hours accumulated in excess of 160, at the end of each quarter. The computed amount of PTO benefits earned by year end is recorded as part of accrued employee compensation.

10. Operating Revenues and Expenses

The Medical Center's statement of revenues, expenses and changes in net position distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services - the Medical Center's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

11. Net Patient Service Revenue

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

12. Property Tax Levy

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for that year. The succeeding year property tax receivable has been recorded as a deferred inflow and the related property tax revenue has been recorded as a deferred outflow of resources. Property tax revenue is reported as non-operating revenue when collected by the County Treasurer.

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2013 and 2012

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

13. Grants and Contributions

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

14. Endowments

Endowments are provided to the Medical Center on a voluntary basis by individuals and private organizations. *Permanent* endowments require that the principal or corpus of the endowment be retained in perpetuity. If a donor has not provided specific instructions, law permits the Board of Trustees to authorize for expenditure the net appreciation of the investments of endowment funds. Currently, the Medical Center has no endowment funds.

15. Restricted Resources

Use of restricted or unrestricted resources for individual projects is determined by the Medical Center Board of Trustees based on the facts regarding each specific situation.

16. Net Position

Net position of the Medical Center is reported in the following three categories. *Invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net position* consists of noncapital assets that must be used for a particular purpose or permanent endowments, as specified by creditors, grantors, or contributors external to the Medical Center. *Unrestricted net position* consists of the remaining net position that does not meet the definition of *invested in capital assets net of related debt or restricted*.

17. Charity Care

The Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Medical Center does not pursue collection of the amounts. The resulting adjustments are recorded as bad debts or charity service (net of discounts for uninsured patients where appropriate) depending on the timing of the charity determination.

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2013 and 2012

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

18. Accounting Changes

In June, 2011, the Governmental Accounting Standards Board (GASB) issued Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*." This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards did not include guidance for these elements, which are distinct from assets and liabilities. This statement is effective for the Hospital for 2012-13. The Hospital has assessed the financial statement impact of adopting this statement and its impact is not material.

The GASB has issued GASB Statement No. 65 "*Items Previously Reported as Assets and Liabilities*" and GASB Statement No. 66 "*Technical Corrections - 2012*." No. 65 specifies proper accounting treatment for certain items and helps clarify the items that should be included under the categories established under Statement No. 63. No. 66 resolves conflicting guidance that resulted from previously issued Statements No. 54 and No. 62. The Hospital has elected to early implement these Statements, which are required to be implemented in the 2013-14 year. The Hospital has assessed the financial statement impact of adopting these statements and concluded their impact is not material.

NOTE B - THIRD-PARTY PAYOR ARRANGEMENTS

A summary of the payment arrangements with major third-party payors follows:

Medicare and Medicaid - Inpatient acute services, inpatient nonacute services, and most outpatient services related to program beneficiaries are paid based on a cost reimbursement methodology. The Medical Center is reimbursed for the cost of services at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the fiscal intermediaries. The Medical Center's Medicare and Medicaid cost reports have been audited and finalized by the fiscal intermediaries through June 30, 2010. However, finalized cost reports are subject to re-opening by the intermediaries within three years after the date of finalization. Outpatient services not paid based on a cost reimbursement methodology are paid based on a prospectively determined fee schedule.

The Medical Center also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Medical Center under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2013 and 2012

NOTE C - ENDOWMENTS AND RESTRICTED NET POSITION

Expendable restricted assets are available for the following purposes:

	<u>2013</u>	<u>2012</u>
Healthcare education loans	\$ 115,910	\$ 93,785
Wellness center scholarships	16,870	16,870
Family planning initiative	360,715	391,879
Debt service	<u>928,389</u>	<u>423,824</u>
	<u>\$ 1,421,884</u>	<u>\$ 926,358</u>

The Medical Center has no nonexpendable restricted assets or endowments at June 30, 2013 or 2012.

Following is a summary of the use of temporarily restricted assets during the year ended June 30:

	<u>2013</u>	<u>2012</u>
Purchase of property and equipment	\$ 365,918	\$ 733,851
Education loans forgiven	2,875	5,682
Wellness center scholarships	--	2,980
Family planning initiative	<u>24,423</u>	<u>41,532</u>
	<u>\$ 393,216</u>	<u>\$ 784,045</u>

NOTE D - DESIGNATED ASSETS

Designated assets remain under the control of the Board of Trustees, which may, at its discretion, later use the funds for other purposes. Of the \$10,819,025 (\$9,955,921 in 2012) of unrestricted net position, \$4,561,625 (\$4,337,806 in 2012) has been designated by the Medical Center's Board of Trustees for purposes identified in the following schedule.

	<u>2013</u>	<u>2012</u>
Capital acquisitions and related debt	\$ 810,932	\$ 722,729
Employee health insurance	1,140,320	1,092,756
Operating costs	<u>2,610,373</u>	<u>2,522,321</u>
	<u>\$ 4,561,625</u>	<u>\$ 4,337,806</u>

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2013 and 2012

NOTE E - DEPOSITS AND INVESTMENTS

The Medical Center's deposits at June 30, 2013 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. Investments are stated as indicated in Note A.

The Medical Center is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Medical Center is allowed to retain any donated equity securities and maintain them as a part of their invested funds. At June 30, 2013 the Medical Center held \$358,144 (\$266,656 in 2012) of capital stock, none of which is covered by any form of insurance against loss.

The composition of designated and restricted assets is as follows:

	<u>2013</u>	<u>2012</u>
Internally Designated Assets:		
Cash and cash equivalents	\$ 640,147	\$ 512,378
Certificates of deposit	3,450,000	3,450,000
Equity securities	358,144	266,656
Interest receivable	11,773	5,023
Due from restricted fund	<u>101,561</u>	<u>103,749</u>
	<u>\$ 4,561,625</u>	<u>\$ 4,337,806</u>
Restricted Assets:		
Cash and cash equivalents	\$ 1,421,449	\$ 942,061
Education loans	101,996	88,046
Due to board designated fund	<u>(101,561)</u>	<u>(103,749)</u>
	<u>\$ 1,421,884</u>	<u>\$ 926,358</u>

The Medical Center's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Medical Center.

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2013 and 2012

NOTE F - FAIR VALUE MEASUREMENTS

The Medical Center's investments are reported at fair value in the accompanying statements of financial position. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and Level 3 inputs are unobservable and have the lowest priority. The Medical Center uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. Level 1 inputs were available for all investments at June 30, 2013 and 2012. The Medical Center's investments included equity securities valued at \$358,144 (\$266,656 in 2012) at year end.

NOTE G - ACCOUNTS RECEIVABLE AND CONCENTRATION OF CREDIT RISK

The Medical Center grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2013 and 2012, was as follows:

	<u>2013</u>	<u>2012</u>
Receivable from:		
Patients	\$ 4,332,503	\$ 4,127,865
Medicare	3,308,017	2,649,829
Medicaid	860,125	1,342,622
Wellmark	1,909,283	1,376,692
Other commercial insurance carriers	1,168,041	987,683
Others	<u>119,787</u>	<u>165,321</u>
	11,697,756	10,650,012
Less allowances for doubtful accounts and contractual adjustments	<u>3,766,000</u>	<u>3,296,000</u>
	<u>\$ 7,931,756</u>	<u>\$ 7,354,012</u>

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2013 and 2012

NOTE H - CAPITAL ASSETS

Medical Center capital assets, additions, disposals and balances for the years ended June 30, 2013 and 2012 were as follows:

<u>Cost</u>	<u>Balance 2012</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2013</u>
Land Improvements	\$ 491,897	\$ 24,618	\$ --	\$ 516,515
Buildings	26,449,103	13,945,505	--	40,394,608
Fixed Equipment	3,701,325	618,044	16,916	4,302,453
Major Movable Equipment	9,740,219	1,426,983	85,996	11,081,206
	<u>40,382,544</u>	<u>16,015,150</u>	<u>102,912</u>	<u>56,294,782</u>
<u>Depreciation</u>				
Land Improvements	404,609	12,825	--	417,434
Buildings	8,829,862	1,112,828	--	9,942,690
Fixed Equipment	3,283,163	110,156	8,599	3,384,720
Major Movable Equipment	7,371,854	670,038	54,557	7,987,335
Total Depreciation	<u>19,889,488</u>	<u>1,905,847</u>	<u>63,156</u>	<u>21,732,179</u>
Depreciable Capital Assets, Net	<u>\$ 20,493,056</u>	<u>\$ 14,109,303</u>	<u>\$ 39,756</u>	<u>\$ 34,562,603</u>
Non-depreciable Capital Assets:				
Land	\$ 1,442,348	\$ 376,700	\$ --	\$ 1,819,048
Construction in progress	<u>12,306,375</u>	<u>5,114,299</u>	<u>15,594,623</u>	<u>1,826,051</u>
	<u>\$ 13,748,723</u>	<u>\$ 5,490,999</u>	<u>\$ 15,594,623</u>	<u>\$ 3,645,099</u>

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2013 and 2012

NOTE H - CAPITAL ASSETS - Continued

<u>Cost</u>	<u>Balance 2011</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2012</u>
Land Improvements	\$ 491,897	\$ --	\$ --	\$ 491,897
Buildings	26,418,103	31,000	--	26,449,103
Fixed Equipment	3,782,472	8,657	89,804	3,701,325
Major Movable Equipment	<u>10,835,211</u>	<u>744,199</u>	<u>1,839,191</u>	<u>9,740,219</u>
	41,527,683	783,856	1,928,995	40,382,544
<u>Depreciation</u>				
Land Improvements	391,012	13,597	--	404,609
Buildings	7,913,938	915,924	--	8,829,862
Fixed Equipment	3,251,199	121,768	89,804	3,283,163
Major Movable Equipment	<u>8,582,203</u>	<u>603,247</u>	<u>1,813,596</u>	<u>7,371,854</u>
Total Depreciation	<u>20,138,352</u>	<u>1,654,536</u>	<u>1,903,400</u>	<u>19,889,488</u>
Depreciable Capital Assets, Net	<u>\$ 21,389,331</u>	<u>\$ (870,680)</u>	<u>\$ 25,595</u>	<u>\$ 20,493,056</u>
Non-depreciable Capital Assets:				
Land	\$ 1,442,348	\$ --	\$ --	\$ 1,442,348
Construction in progress	<u>1,608,980</u>	<u>11,201,313</u>	<u>503,918</u>	<u>12,306,375</u>
	<u>\$ 3,051,328</u>	<u>\$ 11,201,313</u>	<u>\$ 503,918</u>	<u>\$ 13,748,723</u>

NOTE I - NON-CURRENT LIABILITIES

A schedule of changes in the Medical Center's non-current liabilities for the years ended June 30, 2013 and 2012 follows:

	<u>Balance 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2013</u>	<u>Current Portion</u>
Long-Term Debt:					
2010 Capital loan notes	\$ 2,096,900	\$ --	\$2,096,900	\$ --	\$ --
2011 Capital loan notes	<u>3,264,390</u>	<u>6,081,364</u>	<u>122,838</u>	<u>9,222,916</u>	<u>672,930</u>
Total Non-Current Liabilities	<u>\$ 5,361,290</u>	<u>\$ 6,081,364</u>	<u>\$2,219,738</u>	<u>\$ 9,222,916</u>	<u>\$ 672,930</u>

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2013 and 2012

NOTE I - NON-CURRENT LIABILITIES - Continued

	<u>Balance 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2012</u>	<u>Current Portion</u>
Long-Term Debt:					
2010 Capital loan notes	\$ 2,263,700	\$ --	\$ 166,800	\$ 2,096,900	\$ 2,096,900
2011 Capital loan notes	<u>--</u>	<u>3,264,390</u>	<u>--</u>	<u>3,264,390</u>	<u>54,743</u>
Total Non-Current Liabilities	<u>\$ 2,263,700</u>	<u>\$ 3,264,390</u>	<u>\$ 166,800</u>	<u>\$ 5,361,290</u>	<u>\$ 2,151,643</u>

2010 Capital Loan Notes

The Medical Center issued \$2,500,000 of Hospital Revenue Capital Loan Notes, Series 2010 to pay a portion of the costs of constructing and equipping a new Wellness Center. The notes were to mature in monthly installments including principal of \$13,900 and monthly interest on the remaining balance, beginning in March, 2010, through February, 2024. The interest rate for the first three years was to be 2.85%, with the rate changing on February 1, 2013 and every three years thereafter based on the three year Federal Home Loan Bank Des Moines fixed rate advance rate plus 1.375% (subject to a 350 basis point lifetime cap and a 175 basis point re-pricing cap, with a lifetime floor of 2.85%). The Medical Center pledged its future revenues (net of expenses) to repay the notes.

Under terms of the loan agreement, the Medical Center was required to make timely note payments. The loan agreement also placed limits on the incurrence of additional borrowings and required that the Medical Center satisfy certain measures of financial performance as long as the notes were outstanding. The notes were called for redemption by the Medical Center as a result of requirements in the 2011 Loan Note documents. The notes were paid off in May, 2012.

2011 Capital Loan Notes

In December, 2011, the Medical Center issued \$10,000,000 of Hospital Revenue Capital Loan Notes. According to the Loan Note documents, the Medical Center will draw the proceeds of the Notes as construction progresses, up to an amount not exceeding \$10,000,000. The Medical Center had drawn \$9,345,754 of the proceeds by June 30, 2013. Under terms of the Notes, monthly interest only payments were due through May, 2013. Combined principal and interest payments will be made beginning in June, 2013 through May 1, 2025. The original interest rate on the outstanding balance of the Notes is 3.85% with an adjustment on June 1, 2019 based on the seven year Federal Home Loan Bank Des Moines fixed rate advance rate, plus 1.375%. However, the rate will not exceed 6.85% or be below 3.85%.

The Notes are payable only from the revenues of the Medical Center, and are secured by a first lien on its net revenues. The Notes are not general obligations of the county and shall not be paid in any manner by taxation.

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2013 and 2012

NOTE I - NON-CURRENT LIABILITIES - Continued

Annual Debt Service

The annual debt service on the Notes is expected to require less than 37% of the cash flow available for debt service. For the current year, debt service and cash flow available for debt service were approximately \$416,100 and \$2,783,100, respectively.

Scheduled principal and interest repayments on long-term debt are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 672,930	\$ 343,798	\$ 1,016,728
2015	699,300	317,618	1,016,918
2016	726,703	289,835	1,016,538
2017	755,180	236,359	991,539
2018	784,773	231,954	1,016,727
2019 - 2023	4,409,977	673,660	5,083,637
2024 - 2025	1,174,053	18,328	1,192,381
	<u>\$ 9,222,916</u>	<u>\$ 2,111,552</u>	<u>\$ 11,334,468</u>

NOTE J - DEFERRED INFLOWS OF RESOURCES

The deferred inflows of resources include electronic health records (EHR) incentive payments and Iowa Family Planning Initiative (IFPI) revenue. The EHR revenue will be recognized over five years, as the related equipment is depreciated. The IFPI revenue is to be used for future unreimbursed costs incurred as part of the program. Amounts deferred and sources are listed below:

	<u>2013</u>	<u>2012</u>
Electronic health records incentive	\$ 196,000	\$ 112,000
Iowa Family Planning Initiative Grant proceeds	10,585	35,007
Iowa Family Planning Initiative revenues	<u>350,130</u>	<u>356,872</u>
	<u>\$ 556,715</u>	<u>\$ 503,879</u>

NOTE K - PENSION AND RETIREMENT BENEFITS

The Medical Center contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 5.78% (5.95% beginning July 1, 2013) of their annual salary and the Medical Center is required to contribute 8.67% (8.93% beginning July 1, 2013) of annual covered payroll. Contribution requirements are established by State statute. The Medical Center's contributions to IPERS for the years ended June 30, 2013, 2012, and 2011, were approximately \$1,106,600, \$999,300, and \$819,000, respectively, equal to the required contributions for each year.

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2013 and 2012

NOTE L - RELATED ORGANIZATIONS

Shelby County Medical Corporation

Shelby County Medical Corporation (SCMC) employs the physicians who staff the Medical Center owned Rural Health Clinics. The Medical Center purchases the physician services at a set cost per Relative Value Unit (RVU). SCMC is paid at an interim monthly rate, with a net settlement determined at year end, based on the total RVUs provided. The Medical Center provides limited administrative services to assist SCMC in its operations.

Below, and in the following section is information about transactions between the Medical Center and SCMC:

	<u>2013</u>	<u>2012</u>
Purchase of services from SCMC	\$ <u>2,664,817</u>	\$ <u>2,692,170</u>
Sale of services to SCMC	\$ <u>49,411</u>	\$ <u>48,000</u>
Amount receivable from SCMC at year end	\$ <u>28,963</u>	\$ <u>213,934</u>

Health Partners of Southwest Iowa

The Medical Center has joined with two other area hospitals (Cass County Memorial Hospital of Atlantic and Montgomery County Memorial Hospital of Red Oak) to form a 28E organization, Health Partners of Southwest Iowa (HPSI). The organization was formed to share ideas, capital, and resources and to assist in the containment of healthcare costs, while improving the quality of healthcare being delivered in the member hospital service areas. Each of the three members purchase mobile scanning and other medical services from the organization.

Below is a summary of the Medical Center's transactions with HPSI and year end balances involving the 28E organization:

	<u>2013</u>	<u>2012</u>
Services purchased from HPSI	\$ <u>57,825</u>	\$ <u>80,954</u>
Services sold to HPSI	\$ <u>26,572</u>	\$ <u>65,458</u>
Amount due from (to) HPSI	\$ <u>608</u>	\$ <u>4,431</u>
Member share of net position	\$ <u>452,158</u>	\$ <u>427,814</u>

The member share of net position is included in other assets and the amounts due from (to) HPSI are included in other receivables and accounts payable on the statement of net position. The Medical Center has no ongoing financial interest in or responsibility to HPSI, other than that disclosed above. Financial statements of HPSI will be on file at the Medical Center and the office of the State Auditor.

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2013 and 2012

NOTE M - OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description: As required by state law, the Hospital offers health insurance to former employees who have retired after age 55, but have not reached Medicare eligibility. The fully insured plan is a part of the plan offered to all Hospital employees, and the retirees must pay the full cost of the health insurance premium equal to that charged for current employees. There are 222 active employees and 2 retirees covered by the full health insurance plan, with 3 other retirees on the dental plan only, and 1 other retiree on the vision plan only.

Funding Policy: The Hospital does not set aside funds to pay for any OPEB liability. Any Hospital costs of an implicit health insurance premium rate subsidy are charged to expense in the year paid.

Net OPEB Obligation: Management of the Hospital considers any OPEB obligation, which may exist, to be immaterial. Therefore the Hospital has elected to not obtain an actuarial evaluation of the OPEB liability.

Generally accepted accounting principles, established under GASB Statement No. 45, require that an actuarial or alternative computation of a liability be completed. The independent auditor's report regarding the financial statements has been qualified as a result of not obtaining the required evaluation and not recording any potential material OPEB liability.

NOTE N - COMMITMENTS AND CONTINGENCIES

Shelby County Ambulance Commission

The Medical Center has committed to participate in the support of the Shelby County Ambulance Commission along with the City of Harlan. The Commission is a private corporation which provides ambulance services to Shelby County and surrounding communities. The Medical Center has agreed to provide financial support totaling \$84,667 in 2013-14.

Self Funded Health/Disability Insurance

The Medical Center has established an employee health and disability insurance fund. Under the self-insured plan, the Medical Center pays health claims from this fund up to maximum limits and carries stop loss insurance for health claims in excess of the limits. In addition, the Medical Center pays sixty percent of a disabled employee's salary for up to six months, and carries long-term disability insurance for claims longer than a six month period. At June 30, 2013 and 2012 the Medical Center had accumulated funds in excess of actual claims paid of approximately \$1,141,000 and \$1,093,000, respectively. These funds, shown under designated and restricted assets, are designated by the Board to pay claims as they are filed in the future. An allowance for unpaid claims at June 30, 2013 of \$115,680 (\$136,162 in 2012) is included in current liabilities.

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2013 and 2012

NOTE N - COMMITMENTS AND CONTINGENCIES - Continued

Notes Receivable

The Medical Center has provided financial aid to several medical occupation students enabling them to complete their education. In exchange for the aid, the Medical Center receives promissory notes and the commitment of the students to pursue their medical occupation in the Harlan area for a specified period of time upon graduation from the programs. The promissory notes contain clauses indicating they will be forgiven on a pro rata basis as the commitments are fulfilled. If the students fail to fulfill the commitments, the notes are to be repaid, including interest.

Risk Management

The Medical Center is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued. Myrtue Medical Center is exposed to various other common business risks for which it is covered by commercial insurance. Settled claims from these risks have not exceeded insurance coverage during any of the past three fiscal years.

Construction Project

At June 30, 2013, the Hospital was in the final stages of a major construction and renovation program. The total cost of the project was expected to be \$16,300,000, of which approximately \$14,000,000 was completed and put into service in March of 2013. The \$1,826,051 in construction in progress at June 30, 2013 included an additional approximate \$1,300,000 of the project, with an estimated \$1,200,000 remaining to complete this and other projects. Funding for the projects has been provided through the issuance of \$10,000,000 in bonds and funds generated internally.

Subsequent Events

The Medical Center has evaluated all subsequent events through October 4, 2013, the date the financial statements were available to be issued.

NOTE O - ACCOUNTING CHANGE

During 2012, the Medical Center elected to change the method of accounting for revenues generated through its Iowa Family Planning Initiative Program. For the year ended June 30, 2011 and prior, revenue generated in excess of expenses related to the program was recognized as revenue in the year services were provided. Under federal program guidelines, to the extent that revenues generated from grants and other payors exceed costs incurred in any given year, the excess revenue is to be deferred to future years, when program costs will exceed revenues generated. The change in accounting reduced revenues and net position in years previously reported and result in increased deferred revenue on the statement of net position in each year reported.

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2013 and 2012

NOTE O - ACCOUNTING CHANGE - Continued

When the accounting change was made in 2012, an error was made in the computation of the amount of revenue to be deferred in years prior to 2011. The amount computed was low by \$79,359. The error will be corrected by reducing net position and increasing deferred revenue as of the beginning of the 2011-12 year on these financial statements. The following is a summary of the effect of the change on the individual items in the financial statements for the year ended June 30:

	2012	
	<u>Current</u>	<u>Previous</u>
Internally Designated Assets	<u>\$ 4,337,806</u>	<u>\$ 4,417,165</u>
Restricted Assets	<u>\$ 926,358</u>	<u>\$ 846,999</u>
Deferred Revenue	<u>\$ 503,879</u>	<u>\$ 424,520</u>
Net Position Beginning of Year	<u>\$ 37,422,060</u>	<u>\$ 37,501,419</u>
Net Position End of Year	<u>\$ 38,733,162</u>	<u>\$ 38,812,521</u>

NOTE P - RECLASSIFICATION OF BALANCES

Certain titles and items on the statement of net position as of June 30, 2012 have been changed and restated (Note O) or reclassified to be comparable to the amounts and titles reported at June 30, 2013. The changes had no effect on the total assets or the total of the combined liabilities, deferred inflows of resources, and net position of the Hospital.

* * *

REQUIRED SUPPLEMENTARY INFORMATION

MYRTUE MEDICAL CENTER
Budgetary Comparison Schedule
Year Ended June 30, 2013

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following required public notice and hearings. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. The following is a reconciliation between reported amounts and the accrual basis used to prepare the budget. The adjustments result from accounting for interest, ambulance service, loss on disposal of assets, and net position differently for financial statement and budget purposes.

	Per Financial Statements		
	Unrestricted Fund	Restricted Fund	Total
Amount raised by taxation	\$ 789,468	\$ --	\$ 789,468
Other revenues	31,195,578	919,906	32,115,484
Transfers in (out)	<u>393,216</u>	<u>(393,216)</u>	<u>--</u>
	32,378,262	526,690	32,904,952
Expenses	<u>31,829,595</u>	<u>--</u>	<u>31,829,595</u>
Net	548,667	526,690	1,075,357
Balance beginning of year	<u>38,198,683</u>	<u>534,479</u>	<u>38,733,162</u>
Balance end of year	<u>\$ 38,747,350</u>	<u>\$ 1,061,169</u>	<u>\$ 39,808,519</u>

	Total Financial Statements	Budget Adjustments	Budget Basis	Adopted Budget
Amount raised by taxation	\$ 789,468	\$ --	\$ 789,468	\$ 742,245
Other revenues	<u>32,115,484</u>	<u>259,489</u>	<u>32,374,973</u>	<u>36,738,499</u>
	32,904,952	259,489	33,164,441	37,480,744
Expenses	<u>31,829,595</u>	<u>225,581</u>	<u>32,055,176</u>	<u>38,520,334</u>
Net	1,075,357	33,908	1,109,265	(1,039,590)
Balance beginning of year	<u>38,733,162</u>	<u>(2,421,130)</u>	<u>36,312,032</u>	<u>36,312,032</u>
Balance end of year	<u>\$ 39,808,519</u>	<u>\$(2,387,222)</u>	<u>\$ 37,421,297</u>	<u>\$ 35,272,442</u>

See Independent Auditor's Report.

SUPPLEMENTARY INFORMATION

MYRTUE MEDICAL CENTER
Patient Receivables
June 30,

Analysis of Aging:

Days Since Discharge	2013		2012	
	Amount	Percent to Total	Amount	Percent to Total
0 - 30	\$ 4,015,463	34.3%	\$ 3,222,906	30.3%
31 - 90	2,594,995	22.2	2,165,567	20.3
91 - 180	1,480,599	12.7	1,528,576	14.3
181 - 365	1,349,007	11.5	1,212,062	11.4
Over 365	<u>2,257,692</u>	<u>19.3</u>	<u>2,520,901</u>	<u>23.7</u>
	11,697,756	<u>100.0%</u>	10,650,012	<u>100.0%</u>
Less:				
Allowance for doubtful accounts	1,555,000		1,618,000	
Allowance for contractual adjustments	<u>2,211,000</u>		<u>1,678,000</u>	
	<u>\$ 7,931,756</u>		<u>\$ 7,354,012</u>	

Allowance for Doubtful Accounts:

	Year Ended June 30,	
	2013	2012
Balance, beginning	\$1,618,000	\$1,068,000
Provision for bad debts	1,098,856	1,259,673
Recoveries of accounts previously written off	<u>262,416</u>	<u>283,978</u>
	2,979,272	2,611,651
Accounts written off	<u>1,424,272</u>	<u>993,651</u>
Balance, ending	<u>\$1,555,000</u>	<u>\$1,618,000</u>

See Independent Auditor's Report.

MYRTUE MEDICAL CENTER
Patient Service Revenue
Year ended June 30,

	2013	
	<u>Inpatient</u>	<u>Swing-Bed</u>
<u>Daily Patient Services</u>		
Medical, surgical and obstetrical	\$ 1,489,081	\$ 519,697
Nursery	115,989	--
	<u>1,605,070</u>	<u>519,697</u>
<u>Other Nursing Services</u>		
Observation beds	22,960	--
Clinic room	--	--
Operating and recovery room	396,974	18,522
Delivery and labor room	268,117	--
Emergency service	38,683	82
Medical supplies	225,274	24,455
Intravenous therapy	73,670	19,997
	<u>1,025,678</u>	<u>63,056</u>
<u>Other Professional Services</u>		
Emergency room physicians	--	--
Laboratory	598,856	174,240
Electrocardiology	26,879	2,838
Cardiac rehabilitation	--	--
Radiology	90,385	31,968
CT scanning	286,558	40,913
Nuclear imaging	6,844	3,252
Ultrasound	131,361	20,523
MRI	43,370	20,646
Pharmacy	898,398	489,686
Chemotherapy	3,594	1,241
Anesthesia	189,255	5,416
Respiratory therapy	362,383	121,397
Physical therapy	150,578	368,672
Occupational therapy	62,435	238,664
Speech therapy	28,837	34,739
Home health	--	--
Hospice	--	--
Family planning	--	--
Public health	--	--
Wellness center	--	--
Occupational health outreach	--	--
Other	--	--
	<u>2,879,733</u>	<u>1,554,195</u>

(continued next page)

2013			2012
Outpatient	Physician Services	Total	Total
\$ 630,482	\$ --	\$ 2,639,260	\$ 2,375,671
80	--	116,069	134,703
<u>630,562</u>	<u>--</u>	<u>2,755,329</u>	<u>2,510,374</u>
543,215	--	566,175	435,642
499,328	--	499,328	477,435
2,661,546	--	3,077,042	2,620,884
57,428	--	325,545	402,706
1,745,959	--	1,784,724	1,770,167
606,731	49,548	906,008	840,366
702	--	94,369	105,690
<u>6,114,909</u>	<u>49,548</u>	<u>7,253,191</u>	<u>6,652,890</u>
--	897,810	897,810	824,493
3,088,965	3,424,526	7,286,587	6,661,500
411,320	--	441,037	397,941
197,426	--	197,426	126,054
1,485,484	610,909	2,218,746	2,175,847
3,268,959	--	3,596,430	3,422,659
142,727	--	152,823	167,846
1,380,465	--	1,532,349	1,519,628
1,014,912	--	1,078,928	1,300,732
990,093	580,854	2,959,031	2,848,189
1,778,753	--	1,783,588	1,880,531
534,830	--	729,501	723,962
566,522	--	1,050,302	1,100,986
1,945,180	--	2,464,430	2,580,956
323,094	--	624,193	555,707
143,553	--	207,129	202,205
1,105,749	--	1,105,749	937,179
1,063,754	--	1,063,754	947,097
340,576	--	340,576	344,782
369,763	--	369,763	426,057
655,318	--	655,318	665,693
218,194	--	218,194	230,755
806	--	806	839
<u>21,026,443</u>	<u>5,514,099</u>	<u>30,974,470</u>	<u>30,041,638</u>

MYRTUE MEDICAL CENTER
Patient Service Revenue - Continued
Year ended June 30,

	<u>2013</u>	
	<u>Inpatient</u>	<u>Swing-Bed</u>
<u>Behavioral Health</u>	\$ 1,230	\$ --
<u>Physician Clinic Services</u>		
Harlan	--	--
Avoca	--	--
Elk Horn	--	--
Shelby	--	--
Earling	--	--
	<u>--</u>	<u>--</u>
Total All Services	<u>\$ 5,511,711</u>	<u>\$ 2,136,948</u>

See Independent Auditor's Report.

<u>2013</u>			<u>2012</u>
<u>Outpatient</u>	<u>Physician Services</u>	<u>Total</u>	<u>Total</u>
\$ 1,098,205	\$ --	\$ 1,099,435	\$ 793,366
--	6,116,746	6,116,746	6,189,659
--	330,942	330,942	314,957
--	244,446	244,446	232,276
--	266,345	266,345	222,506
--	183,254	183,254	133,168
--	<u>7,141,733</u>	<u>7,141,733</u>	<u>7,092,566</u>
<u>\$ 28,870,119</u>	<u>\$ 12,705,380</u>	<u>\$ 49,224,158</u>	<u>\$ 47,090,834</u>

MYRTUE MEDICAL CENTER
Revenue and Related Adjustments
Year ended June 30,

	<u>2013</u>	<u>2012</u>
<u>Net Patient Service Revenue</u>		
Patient service revenue	\$ 49,224,158	\$ 47,090,834
Contractual adjustment	(15,994,404)	(14,534,791)
Provision for bad debts	(1,098,856)	(1,259,673)
Charity Care	(257,781)	(482,146)
Administrative adjustments	<u>(365,933)</u>	<u>(59,084)</u>
	<u>\$ 31,507,184</u>	<u>\$ 30,755,140</u>
 <u>Other Revenue</u>		
Cafeteria	\$ 109,596	\$ 101,206
Other dietary services	20,542	23,478
Rental income	54,208	53,662
Other	<u>87,856</u>	<u>70,898</u>
	<u>\$ 272,202</u>	<u>\$ 249,244</u>

See Independent Auditor's Report.

MYRTUE MEDICAL CENTER
Schedule of Expenses
Year ended June 30,

	2013		
	Salaries and Wages	Employee Benefits	Supplies and Other Expenses
<u>Daily Patient Services</u>			
Nursing service	\$ 2,495,130	\$ 773,539	\$ 222,877
<u>Other Nursing Services</u>			
Clinic room	403,078	111,877	37,305
Operating and recovery room	374,284	89,719	157,559
Delivery and labor room	202,782	35,279	16,857
Emergency service	279,391	96,217	35,646
Medical supplies	87,379	28,246	470,752
Intravenous therapy	--	--	75,655
Total other nursing services	1,346,914	361,338	793,774
<u>Other Professional Services</u>			
Emergency room physicians	66,215	--	--
Laboratory	646,254	177,244	622,123
Electrocardiology	18,551	1,761	17,015
Cardiac rehabilitation	49,447	13,167	3,735
Radiology	506,695	142,802	392,298
CT scanning	--	--	109,514
Nuclear imaging	--	--	16,915
MRI	--	--	124,328
Pharmacy	291,838	78,934	580,391
Chemotherapy	33,231	3,359	665,706
Anesthesia	218,972	38,752	32,337
Respiratory therapy	180,813	49,355	155,389
Physical therapy	--	--	35,357
Occupational therapy	--	--	1,619
Speech therapy	--	--	--
Home health	456,382	119,542	58,908
Public health	279,951	88,860	126,820
Hospice	354,932	92,190	128,069
Family planning	164,311	42,808	79,098
Occupational health outreach	74,065	23,636	18,412
Wellness center	406,036	126,188	283,296
Medical records	309,117	94,387	150,064
Total other professional services	4,056,810	1,092,985	3,601,394

(continued next page)

2013			2012
Professional Fees	Depreciation Expense	Total Expenses	Total Expenses
\$ 4,425	\$ 95,623	\$ 3,591,594	\$ 3,513,406
69,785	10,942	632,987	590,945
119,245	79,074	819,881	699,398
--	10,547	265,465	308,563
--	14,054	425,308	445,549
--	232	586,609	575,370
--	--	75,655	76,511
189,030	114,849	2,805,905	2,696,336
489,986	--	556,201	539,535
264,162	33,182	1,742,965	1,524,044
--	--	37,327	32,213
--	4,692	71,041	63,819
--	130,323	1,172,118	1,173,614
--	--	109,514	123,738
--	--	16,915	9,610
--	--	124,328	151,081
--	5,782	956,945	907,136
--	--	702,296	827,509
158,425	21,164	469,650	473,370
--	18,183	403,740	380,292
951,709	18,272	1,005,338	962,805
237,466	--	239,085	189,312
151,000	--	151,000	138,118
120,965	30,941	786,738	715,687
--	11,901	507,532	568,785
--	28,410	603,601	578,140
53,928	--	340,145	343,839
5,463	--	121,576	142,109
--	28,355	843,875	747,550
--	2,196	555,764	531,164
2,433,104	333,401	11,517,694	11,123,470

MYRTUE MEDICAL CENTER
Schedule of Expenses - continued
Year ended June 30,

	2013		
	Salaries and Wages	Employee Benefits	Supplies and Other Expenses
<u>Behavioral Health</u>	\$ 449,725	\$ 108,700	\$ 70,607
<u>Physician Clinic Services</u>			
Harlan	2,251,484	484,816	666,183
Avoca	200,913	45,190	51,429
Elk Horn	189,798	48,383	35,625
Shelby	170,625	34,887	48,067
Earling	129,678	50,041	37,103
Total physician clinic services	2,942,498	663,317	838,407
<u>General Services</u>			
Dietary	436,740	147,165	300,322
Plant engineering	211,457	95,303	539,329
Housekeeping	210,305	102,871	82,218
Laundry and linen	29,244	10,146	106,873
Total general services	887,746	355,485	1,028,742
<u>Fiscal and Administrative</u>	1,105,531	450,975	701,797
<u>General Depreciation</u>	--	--	--
Total all departments	<u>\$ 13,284,354</u>	<u>\$ 3,806,339</u>	<u>\$ 7,257,598</u>

See Independent Auditor's Report.

2013			2012
Professional Fees	Depreciation Expense	Total Expenses	Total Expenses
\$ --	\$ 683	\$ 629,715	\$ 548,982
2,461,915	7,406	5,871,804	5,868,179
62,315	1,592	361,439	352,894
33,558	1,217	308,581	312,191
39,300	2,066	294,945	294,790
18,262	--	235,084	229,583
<u>2,615,350</u>	<u>12,281</u>	<u>7,071,853</u>	<u>7,057,637</u>
--	4,074	888,301	894,160
--	7,960	854,049	851,559
--	--	395,394	444,155
--	--	146,263	148,104
<u>--</u>	<u>12,034</u>	<u>2,284,007</u>	<u>2,337,978</u>
333,548	97,019	2,688,870	2,812,142
<u>--</u>	<u>1,239,957</u>	<u>1,239,957</u>	<u>1,060,826</u>
<u>\$ 5,575,457</u>	<u>\$ 1,905,847</u>	<u>\$ 31,829,595</u>	<u>\$ 31,150,777</u>

MYRTUE MEDICAL CENTER
Comparative Statistics
Year ended June 30,

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Acute Care:					
Admissions	748	732	912	968	1,068
Discharges	747	732	913	961	1,075
Patient days	2,399	2,458	2,777	2,929	3,106
Average length of stay	3.2	3.4	3.0	3.0	2.9
Average occupied beds	6.6	6.7	7.6	8.0	8.5
Swing Bed:					
Admissions	216	229	278	282	275
Discharges	218	229	277	284	275
Patient days	1,858	1,815	1,931	1,994	2,295
Combined Average Occupied Beds	11.6	11.7	12.9	13.5	14.8
Nursery Days	201	230	209	249	249
Outpatient Visits	30,788	32,610	32,344	32,336	30,136
Physician Clinic Visits	40,487	38,122	39,242	33,128	34,799

See Independent Auditor's Report.

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

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Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Trustees
Myrtue Medical Center
Harlan, Iowa

We have audited the financial statements of Myrtue Medical Center as of and for the year ended June 30, 2013, and have issued our report thereon dated October 4, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Myrtue Medical Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Myrtue Medical Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Medical Center's financial statements will not be prevented or detected and corrected on a timely basis.

To the Board of Trustees
Myrtue Medical Center

A significant deficiency is a deficiency or combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item 13-I-A to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Myrtue Medical Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Medical Center's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Medical Center. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Response to Findings

Myrtue Medical Center's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Medical Center's responses, we did not audit the Medical Center's responses and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the Hospital's internal control over compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Gronewald, Bell, Kyburz + Co P.C.
Atlantic, Iowa
October 4, 2013

MYRTUE MEDICAL CENTER
Schedule of Findings
Year ended June 30, 2013

PART I - SIGNIFICANT DEFICIENCIES

13-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Medical Center. However, this situation is common in rural hospitals.

Recommendation: We recognize that it may not be economically feasible for the Medical Center to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the members be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Medical Center to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

PART II - REQUIRED STATUTORY REPORTING

13-II-A Certified Budget: Medical Center expenditures during the year ended June 30, 2013 did not exceed amounts budgeted therefore.

13-II-B Questionable Expenses: During the audit, we noted a certain expenditure approved in the Board minutes that may not meet the requirements of public purpose as defined in the Attorney General's opinion dated April 25, 1979. The expense was as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Veteran's Memorial Auditorium and Main Street Market	Employee recognition dinner	\$ 7,190

Recommendation: We recommend that the Board continue to document the public purpose of such an expenditure before authorization is given.

Response: The expenditure is considered part of the employee benefit package and the Board feels it meets the requirements of public purpose as defined by the Attorney General's opinion dated April 25, 1979.

Conclusion: Response accepted.

13-II-C Travel Expense: No expenditures of Medical Center money for travel expenses of spouses of Medical Center officials and/or employees were noted.

13-II-D Business Transactions: During our audit, we noted no business transactions with Medical Center employees or officials.

MYRTUE MEDICAL CENTER
Schedule of Findings
Year ended June 30, 2013

PART II - REQUIRED STATUTORY REPORTING - Continued

13-II-E Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

13-II-F Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Medical Center's investment policy.

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